

Legislative Audit Division

State of Montana



Report to the Legislature

March 2002

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2001

Montana Arts Council

This report contains a qualified opinion and four recommendations relating to:

- ▶ Managing cash draws from federal grants.
- ▶ Increasing federal cost recoveries.
- ▶ Improving compliance with appropriation laws.
- ▶ Deferring revenue from private grants.

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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James Gillett, Financial-Compliance Audit

March 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for fiscal years 2000 and 2001. The report contains three recommendations where the council could enhance compliance with state and federal laws and regulations, and one recommendation to the Office of Budget and Program Planning for improving compliance with limits on transfer authority. The council's and the office's written responses to the audit are included in the back of the report.

We thank the Executive Director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2001

Montana Arts Council

Members of the audit staff involved in this audit were John Fine and Alexa O'Dell.

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Appointed and Administrative Officials

Montana Arts Council

		<u>Term Expires</u>
Bill Frazier (Chair)	Big Timber	2005
Jennifer Earle Seifert	Troy	2005
Marilyn Olson	Sidney	2005
Linda Reed	Helena	2005
Carol Brenden	Scobey	2002
Connie Clarke	Billings	2002
John Dudis	Kalispell	2002
Robert Morrison	Billings	2002
Carol Novotine	Helena	2002
Ann Cogswell	Great Falls	2003
Rick Halmes	Billings	2003
Sody Jones	Billings	2003
Diane M. Klein	Kalispell	2003
Jackie Parsons	Browning	2003

Administrative Officials

Arlynn Fishbaugh	Executive Director
Carleen Layne	Accountant

Montana Arts Council

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2001. We determined the status of audit recommendations made to the council in the previous audit. Of the six recommendations made, the council implemented three and did not implement two. One recommendation was no longer applicable.

We issued a qualified opinion on the financial schedules of the council. The opinion is located on page A-3.

This audit contains three recommendations to the council and one recommendation to the Office of Budget and Program Planning (office). The council concurred with the three recommendations addressing cash management, indirect cost recoveries, and revenue recognition. The office concurred with the recommendation on nonbudgeted transfers.

Recommendation #1

We recommend the council:

- A. Monitor federal cash balances and execute timely federal cash draws in accordance with federal regulations.

Council Response: Concur. See page B-4.

- B. Ensure interentity loans are repaid within one calendar year as required by section 17-2-107 (2)(c), MCA..... 6

Council Response: Concur. See page B-4.

Recommendation #2

We recommend the council continue to seek approval of an indirect cost rate..... 7

Council Response: Concur. See page B-4.

Report Summary

Recommendation #3

We recommend the Office of Budget and Programming:

- A. Direct the Department of Administration to transfer \$58,489 to the Cultural and Aesthetic Project Fund.

Office Response: Concur. See page B-5.

- B. Limit transfers to those with valid statutory authority..... 8

Office Response: Concur. See page B-5.

Recommendation #4

We recommend the council defer revenue for grants when cash is received prior to eligible expenditures being incurred to achieve compliance with state law. 9

Council Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2001. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine the status of prior audit recommendations.
4. Determine if the council's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2001.

The report contains three recommendations to the council and one recommendation to the Office of Budget and Program Planning. Areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

Background

The Montana Arts Council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve staggered five-year terms. The council is authorized to accept gifts and donations to carry out the functions of the council and is designated as the official agency of the state to receive and disburse funds made available by the National Endowment for the Arts. The council is responsible for the governance, management, and control of staff hired to perform its mission. The council's duties are to:

1. Encourage the study and presentation of the arts statewide.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.
4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.
5. Encourage and assist freedom of artistic expression.

Introduction

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, and Montana Folklife are designed to expose Montanans to their artistic and cultural heritage. Grants, fellowships, technical assistance, and networking efforts help support both individual artists and art and cultural organizations.

The council has five sources of funding, including: federal grants from the National Endowment for the Arts (NEA), investment earnings from its Cultural Trust Fund, Percent for Arts allocations from appropriations for construction of state buildings, private grants, and the General Fund. General Fund support was \$575,927 and \$561,791 in fiscal years 2000 and 2001, respectively. The council had six full-time equivalent positions in fiscal year 2000-01.

Section 15-35-108(6), MCA, allocates investment income, excluding unrealized gains and losses, from the Cultural Trust Fund for the protection of art in the state capitol and for cultural and aesthetic projects. The trust fund's corpus must remain intact and increases by 0.63 percent of annual coal severance tax revenue.

Cultural and Aesthetic (C&A) grants are available to cultural organizations and units of state, local, and tribal governments. The council provides support for the C&A project advisory committee in reviewing grant applications. The advisory committee recommends a prioritized grant list to the legislature for funding. The legislature determines which organizations will receive grants, and the council awards the money as specified by the legislature. The 55th Legislature in 1999 approved funding for cultural and aesthetic projects in the 2001 biennium totaling approximately \$973,100.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 1999. The audit report contained six recommendations. The council implemented three recommendations and did not implement two recommendations. A recommendation concerning cash transfers is no longer applicable because the state changed its accounting system.

The first recommendation not implemented relates to monitoring and drawing federal funds (see page 5). The second recommendation not implemented involves proper recording of federal indirect cost recovery revenue. Since future indirect cost recoveries are in question (see page 6), we make no further recommendation on how to record them.

Table 1: Summary of the data									
Table 2: Summary of the data									
Table 3: Summary of the data									
Table 4: Summary of the data									
Table 5: Summary of the data									
Table 6: Summary of the data									
Table 7: Summary of the data									
Table 8: Summary of the data									
Table 9: Summary of the data									
Table 10: Summary of the data									

Findings and Recommendations

Cash Management

The council executes federal cash draws for the National Endowment for the Arts grants. In our prior two audit reports, we recommended the council monitor cash balances and draw federal cash based on need. Federal regulations require cash draws be limited to the minimum amounts needed and timed to meet actual cash requirements of related program expenditures. During the audit we noted cash draws from the federal government were not occurring on a regular basis consistent with expenditures from the federal accounts.

To supplement operating cash between federal draws, the council established interentity loans by borrowing cash from the State Special Revenue Fund. Council personnel said they monitored the cash balance in the federal funds, which included amounts from interentity loans, to determine when they draw federal grant funds. By focusing on cash balance in the federal funds, which included state cash resources from interentity loans, the council did not draw federal cash at the time actual expenditures occurred. Federal regulation allows draws to be timed based on actual cash expenditures.

Section 17-2-107 (2)(c), MCA, requires interentity loans be repaid within one calendar year unless granted an extension of up to an additional year by the Department of Administration. We reviewed interentity loan activity and discovered a \$45,000 loan from fiscal year 1998-99, an \$80,000 loan from fiscal year 1999-00, and a \$60,000 loan in fiscal year 2000-01. At the end of fiscal year 2000-01, the council had \$185,000 of outstanding interentity loans payable in the federal funds. The council did not seek extensions, so loan repayments were overdue. Although several large federal cash draws were made during the two fiscal years, the council made no loan repayments during the audit period. However, the council brought its federal draws up to date and closed all outstanding loans in November 2001 at the request of the Department of Administration.

Findings and Recommendations

The funds loaned from the State Special Revenue Fund would have been invested in the Treasurer's Fund until expended. Treasurer's Fund income flows to the General Fund. We estimate the lost interest income to the General Fund is \$9,620 for the two-year period.

Recommendation #1

We recommend the council:

- A. Monitor federal cash balances and execute timely federal cash draws in accordance with federal regulations.**
- B. Ensure interentity loans are repaid within one calendar year as required by section 17-2-107 (2)(c), MCA.**

Indirect Cost Recoveries

Section 17-3-111, MCA, requires state agencies to negotiate indirect cost rates in accordance with federal regulations and guidelines and recover indirect costs of federal assistance programs to the fullest extent possible. The council did not have an approved indirect cost rate for fiscal year 2000-01. As a result, the council did not recover any of the indirect costs of state services provided to the council from its federal grants in that year. We estimated the potential indirect cost recovery at \$6,100 in fiscal year 2000-01.

According to council personnel, the council submitted an indirect cost proposal in April 2001. The grantor agency has not given the council written rejection or approval of its proposal. Council personnel said the grantor has told them an indirect cost rate does not increase the amount of the award and indirect costs do not meet grant objectives. However, indirect costs constitute valid expenditures of the state which support the administration of the council and its programs. By not recovering these costs, the General Fund subsidizes the federal program. We noted that the grant references OMB Circular A-87, which specifically allows indirect costs to be charged to federal grants.

Recommendation #2

We recommend the council continue to seek approval of an indirect cost rate.

Nonbudgeted Transfers

Chapter 470, Laws of 1997, section 1(3), appropriated \$95,000 from the Cultural and Aesthetics Project Fund for the restoration of stained glass in the Capitol. The appropriation was contingent upon the availability of residual money in the Fund. Chapter 470, Laws of 1997, section 2, states that the unencumbered balance of the 1999 biennium grants reverts to the cultural and aesthetic projects account. On July 12, 1999, the contractor performing the Capitol renovation signed the change order which included the stained glass restoration. On July 19, 2000, the council transferred \$58,489 from the Cultural and Aesthetic Project Fund to the Long Range Building Program Fund at the Department of Administration (department). Because the appropriation had not been encumbered prior to July 1, 1999, and the work had not been completed prior to that date, the appropriation authority to expend the money from the Cultural and Aesthetic Projects Fund lapsed. Since the appropriations lapsed, the council lacked authority to transfer funds to the department in July 2000.

Council management said the transfer was made on the instructions from the Office of Budget and Program Planning. OBPP officials said the legislature clearly intended for the money remaining in the Cultural and Aesthetic Project Fund at the end of the 1999 biennium to be used for stained glass restoration in the Capitol. Since the council had no authority to transfer the money, the Office of Budget and Program Planning should direct the Department of Administration to transfer \$58,489 back to the Cultural Aesthetic Project Fund to correct the error.

Findings and Recommendations

Recommendation #3

We recommend the Office of Budget and Program Planning:

- A. Direct the Department of Administration to transfer \$58,489 to the Cultural and Aesthetic Project Fund.**
- B. Limit transfers to those with valid statutory authority.**

Deferred Revenue

In fiscal year 2001, the council was awarded a five year, \$500,000 grant from the Lila Wallace Reader's Digest Fund (LWRD). The grant is to be used to revise and expand current grant programs offered by the council, to provide training opportunities for grantees, and to publish and distribute case studies of arts participation building efforts of five grantee organizations. The council received \$167,000 of LWRD grant funds in fiscal year 2000-01 and recorded the funds as revenue in the State Special Revenue fund. As stipulated in the grant agreement, the council immediately invested the funds which earned \$853 of interest during the fiscal year. The interest was also recorded as revenue on the accounting records. Expenditures related to the LWRD grant for fiscal year 2000-01 totaled \$7,120.

State law requires state agencies to input transactions necessary to present financial activity in accordance with generally accepted accounting principles. According to generally accepted accounting principles, revenue should not be recognized until the recipient has incurred costs that meet reimbursement eligibility requirements of the grant program. Although the council received grant funds in advance, the grant agreement requires the repayment of any grant funds used for non-approved program activities. Therefore, the council should only recognize revenue on the LWRD grant to the extent that valid expenditures exist. The remaining advance should be recorded as deferred revenue on the accounting records. Council staff indicated they did not consider recording the grant funds as deferred revenue.

By recording revenue prior to meeting revenue recognition requirements, the Grants, Contracts, Donations and Abandonments

Findings and Recommendations

revenue on the Schedule of Total Revenues & Transfers-In and the Nonbudgeted Revenues & Transfers-In and Ending Fund Balance on the Schedule of Changes in Fund Balances in the State Special Revenue fund are overstated by \$160,734 in fiscal year 2000-01. These misstatements caused us to qualify our audit opinion on page A-3.

Recommendation #4

We recommend the council defer revenue for grants when cash is received prior to eligible expenditures being incurred to achieve compliance with state law.

Independent Auditor's Report & Council Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Arts Council for each of the two fiscal years ended June 30, 2000 and 2001. The information contained in these financial schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities, and cash flows.

The council recorded \$160,734 as revenue which should have been deferred. As a result, the Grants, Contract, Donations and Abandonments revenue on the Schedule of Total Revenues & Transfers-In and the Nonbudgeted Revenue and Transfers-In and Ending Fund Balance on the Schedule of Changes in Fund Balances are overstated by \$160,734 in fiscal year 2000-01. In addition, Deferred Revenue liability is understated by \$160,734 at June 30, 2000.

In our opinion, except for the effect of the matter discussed in paragraph four, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Arts Council for the two fiscal years ended June 30, 2000 and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

February 7, 2002

Page A-3

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 2000	\$ (103,154)	\$ 201,902	\$ 3,857,058
ADDITIONS			
Budgeted Revenues & Transfers-In		1,016,457	
NonBudgeted Revenues & Transfers-In	149	168,141	449,918
Prior Year Revenues & Transfers-In Adjustments		23,555	
Direct Entries to Fund Balance	634,033		184,766
Total Additions	<u>634,182</u>	<u>1,208,153</u>	<u>634,684</u>
REDUCTIONS			
Budgeted Expenditure & Transfers-Out	602,310	1,026,321	
NonBudgeted Expenditure & Transfers-Out		22,131	286,146
Prior Year Expenditure & Transfers-Out Adjustments			23,555
Total Reductions	<u>602,310</u>	<u>1,048,452</u>	<u>309,701</u>
FUND BALANCE: June 30, 2001	\$ <u>(71,282)</u>	\$ <u>361,603</u>	\$ <u>4,182,041</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Agency Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1999	\$ (41,951)	\$ (285,175)	\$	\$ 3,818,862
PROPERTY HELD IN TRUST: July 1, 1999			0	
ADDITIONS				
Budgeted Revenues & Transfers-In	3,429	664,052		
NonBudgeted Revenues & Transfers-In	106	190		117,520
Direct Entries to Fund Balance	527,632	613,462		174,627
Additions To Property Held in Trust			136	
Total Additions	531,167	1,277,704	136	292,147
REDUCTIONS				
Budgeted Expenditure & Transfers-Out	592,370	712,760		
NonBudgeted Expenditure & Transfers-Out		58,489		253,951
Prior Year Expenditure & Transfers-Out Adjustments		19,378		
Reductions in Property Held in Trust			136	
Total Reductions	592,370	790,627	136	253,951
FUND BALANCE: June 30, 2000	\$ (103,154)	\$ 201,902	\$	\$ 3,857,058
PROPERTY HELD IN TRUST: June 30, 2000			0	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 119	\$ 261		\$ 380
Investment Earnings		854	\$ 449,918	\$ 450,772
Miscellaneous	30	27		57
Grants, Contracts, Donations and Abandonments		167,000		167,000
Other Financing Sources		512,576		512,576
Federal		527,435		527,435
Total Revenues & Transfers-In	149	1,208,153	449,918	1,658,220
Less: Nonbudgeted Revenues & Transfers-In				
Prior Year Revenues & Transfers-In Adjustments	149	168,141	449,918	618,208
Actual Budgeted Revenues & Transfers-In	0	23,555		23,555
Estimated Revenues & Transfers-In	3,255	1,016,457	0	1,016,457
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,255)	\$ 964,248	\$ 0	\$ 967,503
		\$ 52,209		\$ 48,954
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ (3,255)			\$ (3,255)
Other Financing Sources		\$ (42,854)		(42,854)
Federal		95,063		95,063
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,255)	\$ 52,209	\$ 0	\$ 48,954

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 97	\$ 153		\$ 250
Charges for Services	3,429			3,429
Investment Earnings			\$ 117,520	117,520
Miscellaneous	9	36	45	45
Other Financing Sources		253,951		253,951
Federal		410,101		410,101
Total Revenues & Transfers-In	<u>3,535</u>	<u>664,241</u>	<u>117,520</u>	<u>785,296</u>
Less: Nonbudgeted Revenues & Transfers-In	106	190	117,520	117,816
Actual Budgeted Revenues & Transfers-In	<u>3,429</u>	<u>664,051</u>	<u>0</u>	<u>667,480</u>
Estimated Revenues & Transfers-In	3,255	761,471	0	764,726
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 174</u>	<u>\$ (97,420)</u>	<u>\$ 0</u>	<u>\$ (97,246)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 174			\$ 174
Other Financing Sources		\$ (61,050)		(61,050)
Federal		(36,370)		(36,370)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 174</u>	<u>\$ (97,420)</u>	<u>\$ 0</u>	<u>\$ (97,246)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	<u>PROMOTION OF THE ARTS</u>
Personal Services	
Salaries	\$ 267,074
Other Compensation	8,325
Employee Benefits	<u>67,731</u>
Total	<u>343,130</u>
Operating Expenses	
Other Services	137,286
Supplies & Materials	46,876
Communications	30,623
Travel	48,587
Rent	23,199
Repair & Maintenance	259
Other Expenses	<u>12,660</u>
Total	<u>299,490</u>
Grants	
From State Sources	712,954
From Federal Sources	<u>280,188</u>
Total	<u>993,142</u>
Transfers	
Accounting Entity Transfers	<u>324,701</u>
Total	<u>324,701</u>
Total Expenditures & Transfers-Out	\$ <u>1,960,463</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 602,310
Special Revenue Fund	1,048,452
Nonexpendable Trust Fund	<u>309,701</u>
Total Program Expenditures & Transfers-Out	1,960,463
Less: Nonbudgeted Expenditures & Transfers-Out	308,277
Prior Year Expenditures & Transfers-Out Adjustments	<u>23,555</u>
Actual Budgeted Expenditures & Transfers-Out	1,628,631
Budget Authority	<u>1,924,378</u>
Unspent Budget Authority	\$ <u>295,747</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 1,194
Special Revenue Fund	294,553
Nonexpendable Trust Fund	
Unspent Budget Authority	\$ <u>295,747</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

EXPENDITURES & TRANSFERS-OUT BY OBJECT	PROGRAM (SUB-CLASS) NOT SPECIFIED	PROMOTION OF THE ARTS	Total
Personal Services			
Salaries		\$ 226,768	\$ 226,768
Other Compensation		4,571	4,571
Employee Benefits		56,277	56,277
Total		<u>287,616</u>	<u>287,616</u>
Operating Expenses			
Other Services		109,162	109,162
Supplies & Materials		20,913	20,913
Communications		24,344	24,344
Travel		30,547	30,547
Rent		19,151	19,151
Repair & Maintenance		74	74
Other Expenses		11,821	11,821
Total		<u>216,012</u>	<u>216,012</u>
Grants			
From State Sources		590,962	590,962
From Federal Sources		229,918	229,918
Total		<u>820,880</u>	<u>820,880</u>
Transfers			
Accounting Entity Transfers	\$ 312,440		312,440
Total	<u>312,440</u>		<u>312,440</u>
Total Program Expenditures & Transfers-Out	<u>\$ 312,440</u>	<u>\$ 1,324,508</u>	<u>\$ 1,636,948</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund		\$ 592,370	\$ 592,370
Special Revenue Fund	\$ 58,489	732,138	790,627
Nonexpendable Trust Fund	<u>253,951</u>		<u>253,951</u>
Total Expenditures & Transfers-Out	312,440	1,324,508	1,636,948
Less: Nonbudgeted Expenditures & Transfers-Out	312,440		312,440
Prior Year Expenditures & Transfers-Out Adjustments		19,378	19,378
Actual Budgeted Expenditures & Transfers-Out	<u>0</u>	1,305,130	1,305,130
Budget Authority		1,791,963	1,791,963
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 486,833</u>	<u>\$ 486,833</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund		\$ 1,633	\$ 1,633
Special Revenue Fund		485,200	485,200
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 486,833</u>	<u>\$ 486,833</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Arts Council

Notes to the Financial Schedules for the Two Fiscal Years Ended June 30, 2001

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the council records:

- ▶ Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- ▶ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The council uses accrual basis accounting for its Nonexpendable Trust Fund. Under the accrual basis, as defined by state accounting policy, the council records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. Accounts are organized in funds according to state law. The council uses the following funds:

Governmental Funds

General Fund – to account for all financial resources except those required to be accounting for in another fund.

Notes to the Financial Schedules

Special Revenue Fund – to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The council's Special Revenue Funds include the Cultural and Aesthetic Projects account, State Building Art Acquisitions account, the Wallace grant account, and accounts to track grants from the National Endowment for the Arts.

Fiduciary Funds

Trust Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The council's Nonexpendable Trust Fund is the Cultural and Aesthetic Trust Fund.

2. **General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. The council's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each fiscal year ending June 30, 2000, and June 30, 2001.

3. **Expenditure Program (Sub-Class)**

As part of the implementation of a new accounting system in fiscal year 2000, state officials determined that a sub-class designation would identify the program to which an expenditure should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code nonbudgeted accounts with a sub-class code identifying the expenditure program in which the activity occurred until September 2000. This new edit requires that all expenditure transactions entered through the general ledger include a sub-class value. This nonbudgeted activity is included in the column titled Program (Sub-Class) not specified on the Schedule of Total

Expenditures & Transfers-Out for the fiscal year ended June 30, 2000.

4. **Nonexpendable Trust Fund**

The 55th Legislative Session amended section 15-35-108(6), MCA, effective July 1, 1999, to allocate 0.63 percent of the coal tax earnings to the Cultural Trust Fund. The law requires the appropriation of the income from this trust fund, excluding unrealized gains and losses, for capitol and for other cultural and aesthetic projects. The Budgeted Revenues & Transfers-In in the Special Revenue Fund represent transfers from the Cultural and Aesthetic Trust Fund. These interest earnings are shown as Nonbudgeted Expenditures & Transfers-Out in the Nonexpendable Trust Fund.

5. **Grants, Contracts, Donations and Abandonments Revenue**

In fiscal year 2000-01, the council was awarded a five-year, \$500,000 grant from the Lila Wallace Reader's Digest Fund. The grant is to be used to revise and expand current grant programs offered by the council, to provide training opportunities for grantees, and to publish and distribute case studies of arts participation building efforts of five grantee organizations. The council received \$167,000 of related grant funds in fiscal year 2000-01 and recorded the funds as revenue in the State Special Revenue fund. Expenditures related to the grant for fiscal year 2000-01 totaled \$7,120.

6. **Direct Entries to Fund Balance**

Direct entries to fund balances in the General, Special Revenue, and Nonexpendable Trust fund types result from entries generated by the state's accounting system to reflect the flow of resources within individual funds shared by separate agencies.

Montana Arts Council and Office of Budget and Program Planning Responses

MONTANA ARTS COUNCIL

*Boosting local economies, revitalizing communities
and improving education through the arts*



JUDY MARTZ
GOVERNOR

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Thursday, March 07, 2002

To: Scott Seacat
Legislative Auditor

RECEIVED

MAR 07 2002

Arlynn Fishbaugh

From: Arlynn Fishbaugh
Executive Director

RE: Review of audit recommendations and agency response

Per our response to the last agency audit, I wish to again commend you on the overall cordiality and helpfulness of your staff. As a small agency our ability to review, think about and discuss how higher level accounting matters pertain to our agency is highly compressed. It is also a challenge to stay abreast of all the applicable law changes that relate to us. We continue to seek assistance in this area, but even our contracted legal service at the AG's office doesn't seem to have ready access to all the latest information. Our staff attends every briefing and training available and reads mountains of material to stay current. There is a great deal of information and constant change going on, so we are grateful to be brought up to speed on all these matters. John Fine did provide a checklist of applicable state and federal regulations for our review. We also plan to contact your fine staff—no pun intended—with questions that arise during the coming two years. We have done this with several issues over the prior two years. As John noted in one conversation with our staff, for a small agency we are incredibly complex and must deal with a wide array of accounting issues on a regular basis. We do well with the on-going business of the agency, but it is the rare and non-recurring items that seem to cause us the primary problems as noted in the matter leading to the qualified opinion in this audit. Again we appreciate any assistance that can be provided to aid us in our operations.

We have reviewed the audit recommendations and concur with them all. Enclosed you will find our position, contemplated corrective action and timetable for implementation on each recommendation.

Recommendation #1

We recommend the council:

- A. monitor federal cash balances and execute timely federal cash draws in accordance with federal regulations.

- B. Ensure inter-entity loans are repaid within one calendar year as required by section 17-2-107 (2)(c), MCA.

We concur. We have been working on this area for several years now. Translating the federal regulations into English and working with the National Endowment for the Arts (NEA) for guidance and balancing the requirements with workload has not been an easy task. Last audit period we had too much federal cash and this audit period we appear to have not had enough federal cash. We have not had an inter-entity loan since November of 2001. The new accounting system made it difficult at the beginning of the audit period to determine how to find out how much cash we had at any point in time. This is no longer a problem and we are monitoring cash every two weeks. Unfortunately we do not spend the same amount of money every month or even for the same month in different years. But we have calculated the monthly average for the prior year and have agreed with the NEA to use that monthly average as a basis for determining when to order funds. We are also ordering cash in that average monthly amount. We will revisit the monthly average with the NEA annually and make sure they are satisfied with our monitoring efforts. These procedures are currently in place.

Recommendation #2

- B. We recommend the council continue to seek approval of an indirect cost rate.

We concur. We are in regular communication with the NEA about this matter. We have just this week received written information from them and will be in phone communication to follow-up before the audit committee meeting. We are baffled as to what the problem is.

Recommendation #3

We recommend the Office of Budget and Program Planning:

- A. Direct the Department of Administration to transfer \$58,489 to the Cultural and Aesthetic Project Fund.
- B. Limit transfers to those with valid statutory authority.

We have no opinion on this recommendation. It is not addressed to us.

Recommendation #4

We recommend the council defer revenue for grants when cash is received prior to eligible expenditures being incurred to achieve compliance with state law.

We concur. We have never had funds from a private grant before. We will handle this source of funds as recommended by the Legislative Audit staff and in the future will seek assistance from the Legislative Auditor to assure we account for non-governmental funds properly.

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

JUDY MARTZ
GOVERNOR



CAPITOL BUILDING - P.O. Box 200802
HELENA, MONTANA 59620-0802

March 4, 2002

Scott Seacat, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59620

RECEIVED
MAR 07 2002
LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

We have reviewed carefully Recommendation # 3 contained in the Financial-Compliance Audit of the Montana Arts Council for the two fiscal years ended June 30, 1999. Our response is stated below.

Recommendation #3

We recommend the Office of Budget and Program Planning: A. Direct the Department of Administration to transfer \$58,489 to the Cultural and Aesthetic project fund. B. Limit transfers to those with valid statutory authority

Response

We concur. The State Capitol Restoration base bid contract was signed March 3, 1999. It is clear that the Legislature intended the 1999 biennium balance remaining in the cultural and aesthetic project fund, up to \$95,000 after the status of all project grants in House Bill 9 was known, to be spent for stained glass restoration. With three agencies involved in coordinating the cash and appropriation authority for the stained glass restoration, the fiscal year end accrual slipped through the cracks. Therefore, the Department of Administration has transferred the \$58,489.30 back to the cultural and aesthetic project fund.

Thank you for the opportunity to review the recommendation and to provide our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Chuck Swysgood".

Chuck Swysgood
Budget Director

